PERFORMANCE-BASED CONTRACTING APPROACHES

NOTE TO DoD BPA USER: This Attachment C has been developed to provide guidance, education and a starting point for programs that wish to engage a systems integrator using a performance based service contract. The approaches and any terms that may be contained herein are a baseline from which your program may negotiate and develop performance based payment structures after negotiation with the BPA holder.

C.1 OVERVIEW

Performance-Based Service Contracting (PBSC) provides a contracting vehicle where the government and the vendor share a common purpose — to achieve a government operational goal and/or metric. These approaches produce outcomes; they do not simply provide deliverables or components. As such, performance-based service contracting can be used in a variety of environments. For example, where: an existing capability already exists but needs to be replaced or re-acquired, or where a new capability is being acquired (design, build, run) and the "run" portion of the contract can be outsourced. Also, these types of contracts are useful in instances where the government needs a contracting vehicle that drives the vendor to produce specific business outcomes (i.e., maintenance up time of XX%) rather than specific deliverables (i.e., repair parts delivered.)

Performance Based Contracting represents a fundamentally different relationship between the government and the vendor:

- Risk sharing not risk transfer – implications on how initiatives are managed and sharing of authority
- Outcome focused – ends supercede means...government can set guidelines but contractor will need flexibility to achieve outcome
- Benefit driven – partnership focused on providing positive benefits to Government

It is because this relationship is fundamentally different, that it results in a best value proposition for the government. These types of contracting vehicles create situations where the vendor is taking on a share of the risk with no complete guarantee of payment and the contractor is motivated to provide the best resources and ideas possible, because unless the right outcomes are achieved, there is limited or no financial reward. Similarly, the vendor is typically allowed more freedom than under fixed price contracting in recognition of the greater risk they are taking on. The performance based contracts that have been the most successful for buyers have shared the following Critical Success Factors:

- Management commitment and buy-in by both the client and Accenture
- Mutual, in-depth understanding of benefit drivers/streams
- Alignment of incentives
- Measurable baselines
- Flexible implementation/delivery agreements
- Business case- and task order-based contract

C.2 PERFORMANCE BASED CONTRACTING APPROACHES

C.2.1 Share-in-Savings

Replacing an existing operational capability at the agency with a new capability that will cost less per outcome to operate. Due to the deployment of new technologies in these scenarios, it is sometimes possible to achieve greater or enhanced capabilities at the new, lower operational cost.

This approach requires that a **mutually agreed upon business case** for the current operation can be developed between the vendor and the government.

This business case will document a clear picture of the costs and capabilities in the current operation and will document the anticipated costs and capabilities in the new operation. The difference between the current costs and the future costs represent the savings expected to be gained by executing the project. Once the expected savings are documented, it is possible for the business case team to agree on a fixed percentage of the savings that can be awarded to the contractor over a fixed period of time as compensation for the overall project. Keep in mind that under this scenario, the vendor receives no payment if the savings are never produced and the savings stream continues to accrue to the government, even after the vendor is finished receiving their share.

Typically, the share-in-savings business case is developed under a firm-fixed price task order. If the business case justifies moving forward with the project, the firm-fixed price amount can be waived and the costs of that phase can be rolled into the share-in-savings contract. The government will usually allocate funding for the original baseline costs of the contract, and then use these funds to pay the vendor their share of the savings, thereby retaining the surplus to use elsewhere or to fund future improvement projects.

The vendor typically makes the investments in labor and other costs necessary to produce the outcomes, relieving the government of risk in the event that the business case benefits are not realized.

The **government's responsibilities** under this type of an arrangement include: executive sponsorship of the business case team; participation of functional, technical, budget, and contracting personnel on the business case team; executive sponsorship and project sponsorship during project execution; and participation of business and budget personnel during the post-implementation phase to assist in documenting and certifying that the desired outcomes are being achieved and that savings are being realized.

C.2.2 Fixed Price Performance Incentive

Performing a contract as a fixed price task with deliverables, with performance bonuses tied to specific outcomes once the new capability is in production. This format for performance based contracting can be useful in cases where a new capability is being deployed or in cases where an existing capability is being replaced but for some reason it is not beneficial or possible to document the financials of the existing capability.

Similar to share in savings, it is necessary to begin this process with a business case that documents the future costs to operate the new capability. It is also necessary in the business case to jointly agree on the outcomes the government is seeking from the project and what value will be placed on each outcome. The vendor's compensation is then based on the value of the outcome and is dependent on the outcome being realized, rather than solely on producing deliverables over the course of the project.

In this scenario, the business case is developed under a firm-fixed price task order. If the business case justifies moving forward with the project, the firm-fixed price amount can be rolled into the performance incentive contract. Typically the government will allocate the full funding against the contract, but pays the vendor only when agreed upon outcomes have been achieved. The vendor typically makes the investments in labor and other costs necessary to produce the outcomes, relieving the government of risk in the event that the business case benefits are not realized.

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The following is a representative list of Performance-based Contracts entered by Accenture.

Government	Loan Servicing/Financial Management Systems Implementation	Compensation based on reduction in costs
Government	Logistics/Purchasing/Financial Management Systems Implementation	Compensation based on achievement of outcomes as determined by Quality Assurance and Surveillance reviews
Government	Financial Management Systems Implementation	Compensation partially based on fee awarded by Quality Assurance and Surveillance reviews
Government	Revenue/Financial Management Systems Implementation	All compensation based on increased revenue realized due to project
Government	Application Maintenance Services Outsourcing	Compensation partially based on reduction in costs
Commercial	Finance and Accounting Systems Implementation	Compensation partially based on meeting project objectives
Commercial	Finance and Accounting Business Process Outsourcing	Compensation partially based on reduction in overall accounting costs